

EXECUTIVE SECRETARIAT**Routing Slip**

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Remarks:

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Executive Secretary

7/26/83

Date

3637 (10-81)

THE WHITE HOUSE
WASHINGTON

Executive Registry

83-3779

CABINET AFFAIRS STAFFING MEMORANDUM

DATE: 7/26/83 NUMBER: 118830CA DUE BY: COB August 2, 1983

SUBJECT: Options for Federal Initiative in the Southwest Border Region

Limited Circulation

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	Baker	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Clark	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Defense	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Harper	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Interior	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
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HUD	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
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USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCCT/Gunn	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CEQ	<input type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input type="checkbox"/>	<input type="checkbox"/>
OSTP	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/Boggs	<input type="checkbox"/>	<input type="checkbox"/>
SBA	<input type="checkbox"/>	<input type="checkbox"/>	CCHR/Carleson	<input type="checkbox"/>	<input type="checkbox"/>
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REMARKS:

There will be a full Cabinet meeting with the President on August 9, 1983. Included on the agenda will be a discussion of the Options for Federal Initiative in the Southwest Border Region. Prior to the meeting, please review the attached options paper and submit your comments by COB on August 2, 1983.

Thank you.

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456-2823

☒ Larry Herbolzheimer
Associate Director
Cabinet Affairs
456-2800

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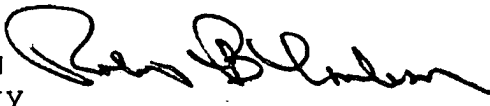
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THE WHITE HOUSE

WASHINGTON

July 21, 1983

MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT B. CARLESON 
Executive Secretary
Southwest Border States Working Group

SUBJECT: Options for Federal Initiative in the Southwest
Border Region

The Southwest Border States Working Group which you established in response to problems in the U.S.-Mexico border region has reported its findings and proposals, and raised several questions for your decision.

I. FINDINGS AND PROPOSALS

A. Problems

Human and economic problems in the border region* are both structural and cyclical. Many border counties rank consistently among the poorest in the nation. Unemployment across much of the area far exceeds state and national averages, even in good years. And heavy dependence on retail trade leaves many localities highly vulnerable to peso devaluations. Barring major adjustments, these long-term problems are likely to endure, even as the effects of recent devaluations dissipate and local businesses revive.

Although similar long-term difficulties afflict border areas in each border state, problems vary widely in magnitude and manageability. The region's larger metropolitan areas -- San Diego, Tucson, El Paso, and, to a lesser extent, Brownsville -- enjoy natural advantages and a basic economic diversity which help to insulate them from developments in Mexico, and increase their ability to recover from devaluation shocks. Many smaller localities are less resilient.

Between 1978 and 1981, the U.S. border region enjoyed a period of relative boom. Robust economic expansion in Mexico, and the Lopez-Portillo government's staunch defense of the peso despite high inflation, brought growing numbers of Mexican shoppers northward in search of increasingly affordable U.S. goods.

*The 36-county area of Texas, New Mexico, Arizona, and California defined as the border region by the former Southwest Border States Regional Commission.

In addition, more affluent Mexicans, eager to exploit the peso's artificial strength and to hedge against the effects of rapid domestic inflation, invested heavily in U.S. border real estate, inflating property values, sparking new construction, and increasing bank deposits.

Cumulative damage to U.S. border economies wrought by the 1982 devaluations contrasts sharply with the 1978-81 experience. Through the first quarter of 1983, as sales dwindled, chronically high unemployment and poverty rates in many border counties rose higher still. Store closures multiplied. And city and county officials wrestled with declining revenues at the same time that economic hardship and swelling immigration increased demands on public services.

However, the effects of devaluation have varied across jurisdictions. Because of their underlying economic strength, the larger border cities have experienced devaluation as a temporary setback. By contrast, smaller, relatively isolated cities situated on or near the border -- e.g., McAllen, Laredo, Eagle Pass, Douglas, Nogales, and Calexico -- seem to have been dealt a powerful and lasting blow.

B. State and Local Response Capacity

At the state level, ingrained attitudes toward state-local relations affect opportunities for shared Federal-state responses to border problems. Texas has traditionally contributed less financial assistance to its localities, and imposed smaller tax burdens on its citizens and businesses, than most other states. By contrast, California and Arizona have chosen historically to maintain higher service levels and to tax more than many states. New Mexico has fallen somewhere in between. These patterns of government are unlikely to change in the face of current peso-related difficulties.

Even where border states might choose to take an active role in addressing local problems, current budget stringencies would make it difficult. California, which has exhausted prior-year surpluses, currently projects a recession-induced revenue shortfall of \$1.5 billion. Arizona and New Mexico have projected shortfalls of about 13%. Texas appears to be somewhat better off than its border neighbors, but even that state faces its hardest fiscal year in recent memory.

Local jurisdictions in those areas hardest hit by peso devaluation have suffered substantial revenue losses. Their principal contribution to a general assistance effort is, therefore, necessarily confined to seeking assistance, informally as some local officials did in meetings with the Border States Working Group, and formally through applications to appropriate Federal and state agencies.

C. Options for Federal Initiative

The Administration could exercise a number of procedural and programmatic options to assist recovery, strengthen the economic base, and augment local services in the border region. Procedural options listed below reflect the consensus of the Working Group. Programmatic options reflect the judgments of particular agencies regarding the types of assistance they could supply at current budget levels.

Procedural Options

Recurrent themes in discussions held by the Working Group in border cities were the need to expedite pending applications to Federal agencies -- e.g., for Foreign Trade Zone designations -- and the need for a Federal office expressly concerned with border problems. Option (1) addresses both concerns.

- (1) Establishment of a Temporary Office of Border Affairs to expedite applications, monitor developments in the region, provide local governments and businesses with information on Federal programs, help coordinate Federal assistance efforts, and encourage multi-state cooperation in dealing with common problems.

Local spokesmen in cities visited by the Working Group were also concerned with facilitating the flow of cross-border traffic. They asked especially that Customs and Immigration officers be added at border ports of entry, and that these officers be allowed to substitute for one another in appropriate circumstances. Customs and Immigration have informed the Working Group that they are responding to these concerns and, therefore, that one component of a possible Administration response to border problems is already under way. Option (2) would help to sustain these efforts.

- (2) Regular reviews of staffing needs at border ports of entry by both Customs and Immigration.

The Working Group has concluded that existing U.S.-Mexico cooperative mechanisms are sufficient to meet current needs in the U.S. border region. At your August meeting with President de la Madrid, therefore, you may wish to emphasize that the Joint Committee on Commerce and Trade (JCCT), which you and President Lopez-Portillo established in 1981, remains an effective bilateral forum. You may also wish to invite President de la Madrid to join you in reaffirming support for the U.S.-Mexico twin-plant program.

- (3) Inclusion of items covering the JCCT and the twin-plant program on the agenda for your August meeting with President de la Madrid.

The Working Group believes that Federal initiatives in the border region should take full account of the fact that two border states are among the wealthiest and most populous in the nation. Arguably, these states' contributions to a general assistance effort should reflect their economic strength. To facilitate a shared Federal-state response to the present difficulties, therefore, a new Office of Border Affairs might conduct:

- (4) Meetings with state officials to sharpen mutual understanding of how each level of government intends to address border problems.

Programmatic Options

Continued weakness in the Mexican economy over the next year or more, will slow recovery of the retail sector in many U.S. border communities. Consequently, the Administration's immediate goal should be a rapid increase in jobs outside retailing. For the longer term, Federal efforts should aim at helping border economies to diversify and lessen their dependence on Mexico. Several options available to the Administration would serve both of these objectives at once.

- (5) EDA Jobs Bill, or Sudden and Severe Economic Dislocation (Title IX) Grants, from remaining FY 83 resources, to local jurisdictions to provide new jobs now, and to build the foundation for future economic diversification. If Congress funds EDA programs in FY 84, assistance to the border region could also be provided under EDA's Title I (public works), technical assistance, and planning grant authorities. However, Jobs Bill funds would not be available after September 30.
- (6) UDAG Grants to stimulate industrial development in cases where local matching funds are available. HUD can assist border localities in preparing grant applications and can accelerate Federal consideration of such applications.
- (7) A special outreach program to accelerate certification of 8(a) firms, but only if Federal procurement from minority firms in the border region were substantially increased.
- (8) Subordinated, fixed-asset loans channeled through SBA Certified Development Companies to border area businesses, possibly in combination with UDAG grants. (SBA can also make loans directly, at slightly above Treasury borrowing

rates, though such loans are not included in the Working Group's recommendations. The Group has revised its original view that you have authority to direct SBA to make low-interest "economic disaster" loans. This authority was voided by the 1981 Reconciliation Act.)

- (9) FmHA assistance for public works, rural housing, and business development.

Assistance to individuals and local jurisdictions in the border region could be provided through:

- (10) Discretionary Grants Under JTPA, Title III to facilitate the retraining and reemployment of dislocated workers; and
- (11) Department of Education Bilingual Demonstration Grants to local school districts.

In addition, the U.S. border region would gain indirectly from any action by the Administration to help speed economic recovery in Mexico.

II. QUESTIONS FOR DECISION

Several general policy choices logically precede action on any of the options posed by the Working Group.

- (1) Should the Administration make a special effort to help the border region?

Con. A special border assistance effort might be difficult to justify on the basis of need. High levels of poverty and unemployment are hardly confined to the border counties, and a special initiative there could generate demands from other regions for comparable treatment. In addition, more aid for the border could mean less aid for some other place or purpose.

Pro. Aid to the border region could be justified by the Administration in terms of sudden and severe economic dislocation, and not need alone. Such aid would not jeopardize other priorities, if it were drawn from appropriations that would not otherwise have been used (e.g., unexpended EDA grant funds). Budgetary arguments against this recourse are offset by the likelihood that Federal efforts will be modest and geographically confined. Also, public expectations generated by

the establishment of the Working Group and by its proceedings have added weight to the considerations which argued originally for some kind of assistance effort.

Decision:

Undertake a special
border assistance effort. _____

Do not undertake a special
border assistance effort. _____

Other. _____

(2) How large a resource commitment is warranted?

Large. A large commitment would be consistent with last year's SBA "peso pack" initiative. (In response to the 1982 devaluations, SBA earmarked \$200 million of its regular loan guarantee authority for use on the border. Because "peso pack" loans carry market rates of interest, only 15% of this authority has been exercised.) The principal component of a large commitment would likely be SBA direct loans at below-market interest rates. SBA has about \$165 million in direct loan authority remaining in FY 83. Given the unpopularity of the "peso pack" program, a large new border assistance effort which included low-interest loans would be a widely recognized symbol of Federal responsiveness.

Small. Though peso-devaluation has affected the entire border region, the worst damage and dimmest prospects for early recovery are confined to a relatively few small cities and towns. Limited expenditures would suffice to reduce devaluation-related unemployment and to promote economic diversification in these localities; and a number of other helpful responses (e.g., expediting Foreign Trade Zone designations) could be virtually cost free. Practically speaking, therefore, the immediate problems of the border region do not call for major Federal expenditures. In addition, an assistance package comprised largely of low-interest loans would be unlikely to create many new jobs quickly or to promote economic diversification. (Indeed, some border merchants reject the idea of "soft" loans on the grounds that current cash

flows would prevent repayment, at any interest rate.) Finally, a large border assistance effort could prompt demands for proportionate consideration from other distressed areas.

Decision:

Federal initiatives in the border region should involve a large commitment of resources (e.g., \$100 million)._____

Federal initiatives in the border region should involve a small resource commitment (e.g., \$20 million)._____

Other._____

- (3) Should the Federal assistance effort carry a specific price tag, or should program managers simply be instructed to consider project proposals emanating from border counties on a priority basis?

Price tag. Federal assistance to the border region would be more recognizable publicly if it were quantified in advance.

No price tag. Politically, a small price tag could be a liability. And any price tag, large or small, could crystalize demands from other economically troubled regions for similar consideration. Also, after September 30, primary sources of financial aid may be programs for which the Administration has requested no FY 84 funding.

Instructions to program managers, in effect, to move applications from the border region to the head of the queue or to take recommended procedural steps would probably require a round of bilateral discussions between White House staff and the appropriate managers.

Decision:

Federal assistance efforts should carry a specific price tag._____

Federal assistance efforts should carry no price tag._____

Other._____

- (4) Should the Administration establish a small, temporary Office of Border Assistance?

Pro. An office of three or four people, possibly with a Director recruited from the border region itself, would partially satisfy requests by some border spokesmen for an organizational expression of Federal concern. Such an office would help to expedite and coordinate Federal assistance efforts, and meet with state officials to promote multi-state and Federal-state cooperation.

Decision:

Create a small, temporary
Office of Border Assistance. _____

Do not create an
Office of Border Assistance. _____

Other. _____